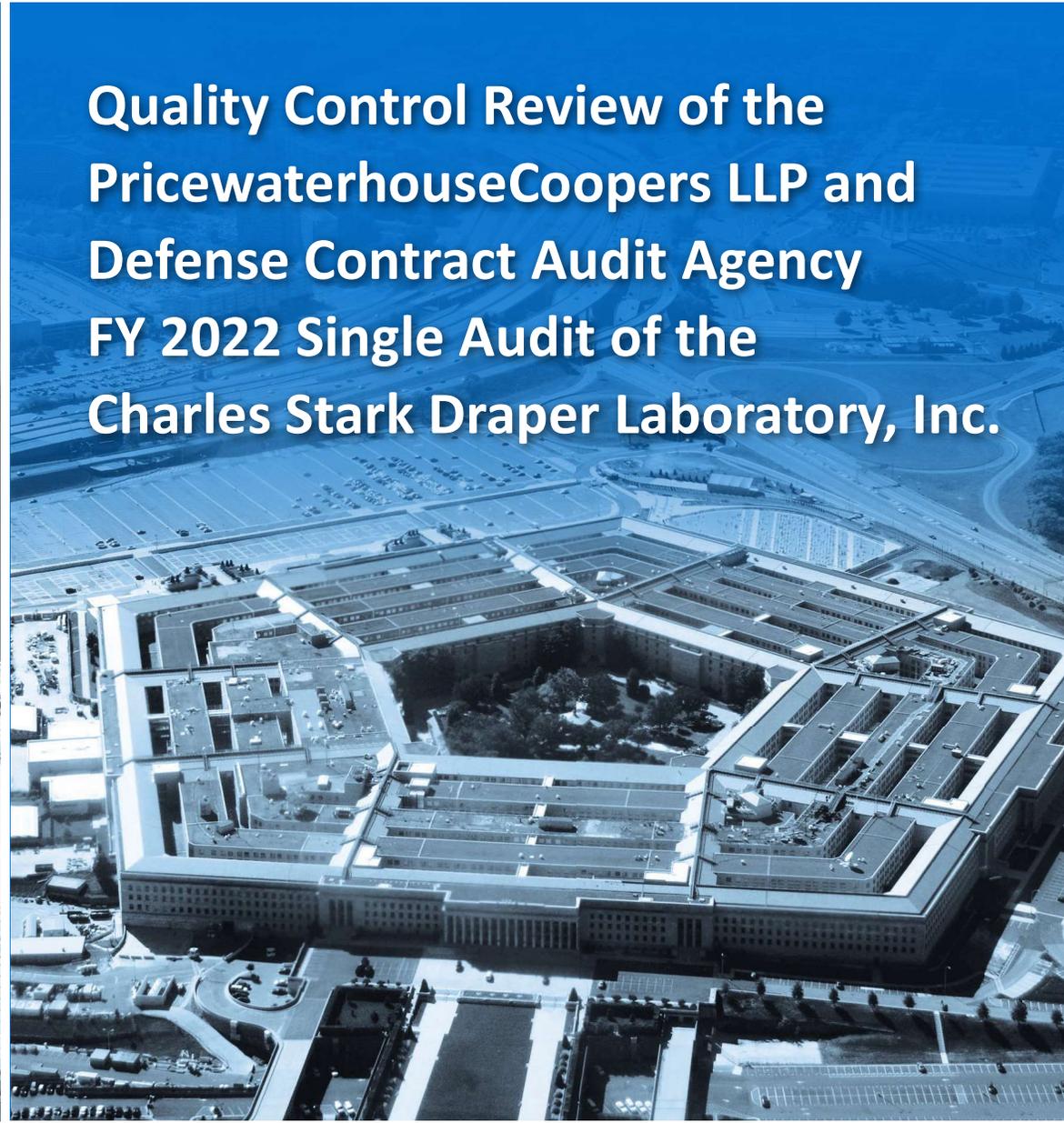




# INSPECTOR GENERAL

*U.S. Department of Defense*

DECEMBER 14, 2023



## Quality Control Review of the PricewaterhouseCoopers LLP and Defense Contract Audit Agency FY 2022 Single Audit of the Charles Stark Draper Laboratory, Inc.

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





# Results in Brief

## *Quality Control Review of the PricewaterhouseCoopers LLP and Defense Contract Audit Agency FY 2022 Single Audit of the Charles Stark Draper Laboratory, Inc.*

**December 14, 2023**

### **Objective**

The objective of this quality control review was to determine whether PricewaterhouseCoopers LLP (PwC) and the Defense Contract Audit Agency (DCAA) performed the FY 2022 single audit of the Charles Stark Draper Laboratory, Inc. (Draper) in accordance with generally accepted government auditing standards and Federal requirements for single audits.

### **Background**

Non-Federal entities that expend Federal funds of \$750,000 or more in a fiscal year are subject to the requirements of Public Law 104-156, "Single Audit Act Amendments of 1996" (the Single Audit Act), and title 2 Code of Federal Regulations part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance). The Single Audit Act was enacted to promote sound financial management of Federal awards administered by non-Federal entities and to establish uniform requirements for audits of Federal awards. The Uniform Guidance establishes the standards for consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.

Draper is a non-profit research and development organization that supports the advancement of research, technology and development, and educational activities in sciences and related subjects. Draper's activities for the Government relate to the design, development, and deployment of

### **Background (cont'd)**

advanced technological solutions in the areas of security, space exploration, healthcare, and energy. In FY 2022, Draper spent \$444 million in Federal awards, including approximately \$386 million in DoD awards on one major program, the Research and Development Cluster. PwC and the DCAA performed Draper's FY 2022 single audit using a coordinated audit approach.

### **Review Results**

PwC and the DCAA complied with generally accepted government auditing standards and Uniform Guidance requirements when they performed the FY 2022 single audit of Draper.





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**DEPARTMENT OF DEFENSE**  
4800 MARK CENTER DRIVE  
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December 14, 2023

Assurance Partner  
PricewaterhouseCoopers LLP

Branch Manager  
New England Branch Office

**SUBJECT:** Quality Control Review of the PricewaterhouseCoopers LLP and Defense Contract Audit Agency FY 2022 Single Audit of the Charles Stark Draper Laboratory, Inc. (Report No. DODIG-2024-039)

This final report provides the results of the DoD Office of Inspector General's quality control review. We previously provided a copy of the discussion draft report to the PricewaterhouseCoopers LLP and Defense Contract Audit Agency representatives, who responded with no comments. We did not make any recommendations; therefore, no additional comments are required.

We appreciate the cooperation and assistance that we received during the quality control review. If you have any questions, please contact [REDACTED]

FOR THE INSPECTOR GENERAL:

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is positioned above the printed name.

Randolph R. Stone  
Assistant Inspector General for Evaluations  
Space, Intelligence, Engineering, and Oversight

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# Introduction

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## Objective

The objective of this quality control review was to determine whether PricewaterhouseCoopers LLP (PwC) and the Defense Contract Audit Agency (DCAA) performed the FY 2022 single audit of the Charles Stark Draper Laboratory, Inc. (Draper) in accordance with generally accepted government auditing standards (GAGAS) and Federal requirements for single audits.<sup>1</sup> Appendix A contains our scope and methodology. Appendix B lists the compliance requirements that PwC identified as direct and material to Draper's major program for the fiscal year that ended July 1, 2022.

## Background

Non-Federal entities that expend Federal funds of \$750,000 or more in a fiscal year are subject to the requirements of Public Law 104-156, "Single Audit Act Amendments of 1996" (the Single Audit Act), and title 2 Code of Federal Regulations (CFR) part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance). The Single Audit Act was enacted to promote sound financial management of Federal awards administered by non-Federal entities and to establish uniform requirements for audits of Federal awards. The Uniform Guidance establishes the standards for consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.<sup>2</sup>

In accordance with the Uniform Guidance, non-Federal entities must have an annual single or program-specific audit performed in accordance with GAGAS. Non-Federal entities must also submit a complete single audit reporting package to the Federal Audit Clearinghouse.<sup>3</sup> A single audit includes an audit of the non-Federal entity's financial statements and Federal awards. Auditors performing a single audit determine whether the financial statements are fairly presented in all material respects in accordance with generally accepted accounting principles.

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<sup>1</sup> The Government Accountability Office "Government Auditing Standards" incorporates the American Institute of Certified Public Accountants' "Codification of Statements on Auditing Standards." Title 2 CFR part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," subpart F, "Audit Requirements," identifies the Federal requirements for single audits.

<sup>2</sup> Office of Management and Budget, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," commonly referred to as the Uniform Guidance, implemented in 2 CFR part 200, January 2022.

<sup>3</sup> The reporting package includes the auditor's reports, financial statements, schedule of expenditures of Federal awards, summary schedule of prior audit findings, and a corrective action plan, as 2 CFR 200.512(c) requires. The Office of Management and Budget designated the Federal Audit Clearinghouse as the repository of record for single audit reports. As 2 CFR 200.512(g) requires, the Federal Audit Clearinghouse maintains a database of completed audits, provides appropriate information to Federal agencies, and performs follow-up with auditees that have not submitted the required information.

In addition, the auditors perform procedures on the non-Federal entity's internal controls over Federal programs. Also, the auditors determine whether the non-Federal entity complied with Federal laws and regulations and the terms and conditions of Federal awards that may have a direct and material effect on its major programs. The Single Audit Act and Uniform Guidance require Federal agencies to assess the quality of single audits. Our quality control review of Draper's FY 2022 single audit satisfies this requirement.

### ***Draper Designs and Develops Technologies to Support the Advancement of Scientific Research***

Draper is a non-profit research and development organization that supports the advancement of research, technology and development, and educational activities in sciences and related subjects. Draper's activities for the Government relate to the design, development, and deployment of advanced technological solutions in the areas of security, space exploration, healthcare, and energy. In FY 2022, Draper spent \$444 million in Federal awards, including approximately \$386 million in DoD awards on one major program, the Research and Development Cluster.<sup>4</sup> PwC and the DCAA performed Draper's FY 2022 single audit using a coordinated audit approach.

### ***PwC Performed the Financial Statement Audit and Part of Draper's Federal Program Audit***

As part of the Draper single audit, the auditors assigned to the PwC office in Boston, Massachusetts, performed the FY 2022 financial statement audit and a portion of the Federal program audit. For the Federal program audit, PwC was responsible for reviewing six compliance requirements and part of two additional compliance requirements. See Appendix B for a list of compliance requirements that PwC reviewed.

PwC is a member under PricewaterhouseCoopers International Limited and provides audit and assurance, tax, and consulting services to a wide range of publicly traded and privately held companies. As required by GAGAS, PwC is responsible for establishing and maintaining a system of quality control. The system of quality control must provide reasonable assurance that the audit organization and its staff comply with professional standards and legal and regulatory requirements.<sup>5</sup> PwC must also obtain an external peer review of its system of quality control conducted by reviewers independent of the audit

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<sup>4</sup> The Research and Development Cluster consists of a variety of research and development activities performed under different types of funding agreements, such as grants, cooperative agreements, and contracts that have similar requirements.

<sup>5</sup> Government Auditing Standard 5.02, "Quality Control and Assurance," July 2018 (Updated April 2021).

organization.<sup>6</sup> The most recently published external peer review report concluded that PwC had suitably designed and complied with its system of quality control of its accounting and auditing practice.<sup>7</sup>

### ***The DCAA Performed Part of Draper’s Federal Program Audit***

In coordination with PwC, the DCAA New England Branch Office in Lowell, Massachusetts, performed the remaining part of Draper’s FY 2022 Federal program audit. Specifically, the DCAA was responsible for reviewing part of two compliance requirements for the Federal program audit. See Appendix B for a list of the compliance requirements that the DCAA reviewed.

The DCAA provides audit and financial advisory services to the DoD and other Federal agencies responsible for acquisition and contract administration. The DCAA operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. The DCAA’s primary function is to conduct contract audits and related financial advisory services. The DCAA’s organizational structure consists of a headquarters; four corporate audit directorates organized by major contractors; three geographical regions primarily focused on other large, mid-sized, and small contractors; and a field detachment focused on classified work.

As required by GAGAS, the DCAA is responsible for establishing and maintaining a system of quality control and must also obtain an external peer review of its system of quality control conducted by reviewers who are independent of the audit organization. The most recently published external peer review report concluded that the DCAA had suitably designed and complied with its system of quality control.<sup>8</sup>

## **Review Results**

We determined that PwC and the DCAA complied with GAGAS and Uniform Guidance requirements when they performed the FY 2022 single audit of Draper. We used the Council of the Inspectors General on Integrity and Efficiency 2021 edition of the “Guide for Quality Control Reviews of Single Audits Reports” (CIGIE Guide) to perform our review. The CIGIE Guide identifies audit procedures that auditors must perform and document during the single audit to meet GAGAS and Uniform Guidance requirements. We reviewed the PwC and DCAA audit documentation, analyzed the nature and extent of the PwC and DCAA audit procedures, and verified whether PwC and the DCAA obtained sufficient evidence

<sup>6</sup> Government Auditing Standard 5.60, “External Peer Review,” July 2018 (Updated April 2021).

<sup>7</sup> Grant Thornton LLP, “Report of the Firm’s System of Quality Control,” November 22, 2021.

<sup>8</sup> Acuity Consulting, Inc., “System Peer Review Report,” July 18, 2022.

to support their conclusions and audit report opinion. Specifically, we verified whether PwC and the DCAA complied with the requirements for each of the following aspects of the FY 2022 single audit of Draper.

- Qualification of auditors
- Auditor independence
- Due professional care
- Planning and supervision
- Audit follow-up
- Determination of direct and material compliance requirements
- Internal control and compliance testing
- Schedule of expenditures of Federal awards
- Reporting

## Appendix A

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### Scope and Methodology

We conducted this quality control review from April 2023 through November 2023 in accordance with the CIGIE “Quality Standards for Inspection and Evaluation,” published in December 2020. Those standards require that we adequately plan and perform the quality control review to ensure that objectives are met and that we perform the review to obtain sufficient, competent, and relevant evidence to support the findings, conclusions, and recommendations. We believe that the evidence we obtained is sufficient, competent, and relevant to lead a reasonable person to sustain the conclusions.

The Office of Management and Budget designated the Federal Audit Clearinghouse as the repository of record for single audit reports. The Federal Audit Clearinghouse received Draper’s FY 2022 single audit report on March 30, 2023. The single audit report identified the Research and Development Cluster as the one major Federal program at Draper. PwC and the DCAA performed a coordinated audit of Draper’s Research and Development Cluster. We reviewed the single audit of Draper using the CIGIE Guide. We focused our review on the following aspects of the single audit.

- Qualification of auditors
- Auditor independence
- Due professional care
- Planning and supervision
- Audit follow-up
- Determination of direct and material compliance requirements
- Internal control and compliance testing
- Schedule of expenditures of Federal awards
- Reporting

We conducted interviews with the PwC auditors assigned to PwC’s Boston, Massachusetts, office and with the DCAA auditors assigned to the DCAA New England Branch Office in Lowell, Massachusetts, who performed the FY 2022 single audit of Draper. We reviewed PwC and DCAA audit files for the FY 2022 single audit to assess whether the auditors conducted the single audit in accordance with GAGAS and Uniform Guidance requirements. GAGAS incorporates the American Institute for Certified Public Accountants “Codification of Statements on Auditing Standards” by reference. Uniform Guidance requirements for single audits are identified in 2 CFR part 200.

Our review included:

- evaluating evidence of PwC and DCAA independence, auditor qualifications, and latest external peer review;
- reviewing all audit documentation that the PwC auditors prepared to support the audit opinions on whether Draper’s financial statements and its schedule of expenditures of Federal awards were fairly presented in all material respects;
- verifying that the PwC auditors supported their determination on the compliance requirements they identified as direct and material to the major program; and
- reviewing all audit documentation that the PwC and DCAA auditors prepared to support the audit opinion on whether Draper complied with the compliance requirements that could have a direct and material effect on the major program.

Our review of PwC and DCAA audit documentation on direct and material compliance requirements included analyzing audit procedures that the auditors performed to: (1) understand Draper’s internal controls, (2) select samples for testing, and (3) test the internal controls and compliance with Federal requirements.

We held discussions with the PwC and DCAA auditors to understand and verify the audit work they performed as part of the FY 2022 single audit of Draper. Appendix B lists the compliance requirements that PwC identified as direct and material to Draper’s major program for the fiscal year that ended July 1, 2022, and which auditors are responsible for the review of the requirements.

## **Use of Computer-Processed Data**

We did not use computer-processed data to perform this quality control review.

## **Prior Coverage**

During the last 5 years, the DoD Office of Inspector General (OIG) issued two reports discussing PwC single audits and one report discussing a DCAA single audit. During the last 5 years, the DoD OIG did not issue a report involving a single audit of Draper.

Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

**DoD OIG**

Report No. DODIG-2021-087, "Quality Control Review of the PricewaterhouseCoopers LLP FY 2019 Single Audit of the Institute for Defense Analyses," May 21, 2021

PwC complied with GAGAS and Uniform Guidance requirements when it performed the FY 2019 single audit of the Institute for Defense Analyses.

Report No. DODIG-2020-070, "Quality Control Review of the Defense Contract Audit Agency and Deloitte & Touche Fiscal Year 2016 Single Audit of the Aerospace Corporation," March 17, 2020

The DCAA did not comply with auditing standards related to audit documentation when performing the FY 2016 single audit of Aerospace because the DCAA auditors did not document professional judgments they made to support the audit opinion they issued. Before we issued the report, the DCAA auditors took corrective actions and prepared supplemental audit documentation that provided a clear and accurate description of the professional judgments they made to support the qualified audit report opinion.

Report No. DODIG-2019-067, "Quality Control Review of the PricewaterhouseCoopers LLP FY 2017 Single Audit of The CNA Corporation," March 22, 2019

PwC generally complied with auditing standards and Uniform Guidance requirements when performing the FY 2017 single audit of the CNA Corporation.

## Appendix B

### Compliance Requirements

The Office of Management and Budget issues the Compliance Supplement, which provides guidance to assist auditors in determining compliance requirements applicable to the audit.<sup>9</sup> The Compliance Supplement summarizes Federal requirements into 12 compliance requirements. For the Research and Development Cluster, the Compliance Supplement states that all compliance requirements are applicable, except for the Eligibility; Matching, Level of Effort, and Earmarking; Program Income; and Reporting compliance requirements. Auditors who perform a single audit are required to test those compliance requirements that are direct and material to the major program. The following table identifies the compliance requirements that the PwC auditors determined were direct and material to the major program.

*Table. Uniform Guidance Compliance Requirements that PwC Identified as Direct and Material to the Research and Development Cluster Program and Auditors Responsible*

Uniform Guidance Compliance Requirements	Direct and Material	Auditor Responsible*
Activities Allowed or Unallowed	X	PwC and DCAA
Allowable Costs/Cost Principles	X	PwC and DCAA
Cash Management	X	PwC
Eligibility		
Equipment and Real Property Management	X	PwC
Matching, Level of Effort, Earmarking		
Period of Performance	X	PwC
Procurement, Suspension, and Debarment	X	PwC
Program Income		
Reporting		
Subrecipient Monitoring	X	PwC
Special Tests and Provisions	X	PwC

\* For the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements, PwC was responsible for reviewing non-DoD awards, and the DCAA was responsible for reviewing DoD awards.

Source: DoD OIG prepared based on PwC audit documentation.

<sup>9</sup> 2 CFR part 200, Appendix XI, "Compliance Supplement," April 2022.

## Acronyms and Abbreviations

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- CFR** Code of Federal Regulations
- CIGIE** Council of the Inspectors General on Integrity and Efficiency
- DCAA** Defense Contract Audit Agency
- GAGAS** Generally Accepted Government Auditing Standards
- PwC** PricewaterhouseCoopers LLP



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